

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

Petition of SBC for Forbearance From
the Prohibition of Sharing Operating,
Installation and Maintenance Functions
Under Sections 53.203(a)(2) and
53.203(a)(3) of the Commission's Rules
and Modification of Operating, Installation
and Maintenance Conditions Contained in
the SBC/Ameritech Merger Order

WC Docket No. _____

RECEIVED

JUN 19 2003

Federal Communications Commission
Office of Secretary

DECLARATION OF RICHARD DIETZ

I, Richard Dietz, being of lawful age and duly sworn upon my oath, do hereby
state as follows:

1. My name is Richard Dietz. I am President and CEO of SBC Data Services, Inc. My duties include supervision of SBC's data services and long distance affiliates, which currently include, among other entities, SBC's section 272 long distance affiliate (referred to here as SBC Long Distance, Inc. ("SBCLD")), SBC's advanced services affiliates (collectively referred to here as SBC Advanced Solutions, Inc., ("ASI")), SBC's data equipment and customer network management affiliate (referred to here as "SBC DataComm"), and SBC's Internet access affiliates (collectively referred to as SBC Internet Services ("SBCIS")). I have previously held positions in finance, corporate recruiting, information systems, strategic planning, regulatory, network operations, sales, customer services, network engineering and construction, and marketing for SBC Communications Inc. companies. I received a Bachelor of Science degree in engineering in 1968 from Case Western Reserve University in Cleveland, Ohio, and a master's degree in business administration from Washington University in St. Louis in 1974. In my current position, I have first-hand knowledge of the costs and burdens on SBC and on consumers resulting from the various structural separation regulations imposed on these lines of business.
2. Among those structural separation requirements are requirements applying to the operating, installation and maintenance ("OI&M") of switching and transmission facilities, to design and assignment ("D&A"), and to network planning and engineering ("NP&E") of the various network components. The purpose of this declaration is to describe the specific costs and burdens imposed by those requirements on SBC and its customers. In particular, I show how the OI&M, D&A

and NP&E (collectively referred to for purposes of this declaration as "OI&M") restrictions impair SBC's ability to provide effective customer service, cause customer confusion and frustration, needlessly prolong service outages, diminish customer expectations of network reliability, and impose significant direct costs on SBC and ultimately consumers, all of which constrains SBC's ability to provide the highest quality service at the best price, thereby reducing competition in the marketplace.

3. The FCC's OI&M restrictions require forced separation and duplication of a number of critical functions and facilities among SBC's various affiliates. Among other things, these restrictions preclude SBC from using common systems and personnel to monitor the operation of its network facilities to ensure that they are functioning properly and to identify any malfunctions, outages or over-utilization. They also prevent SBC from integrating the systems, personnel and processes responsible for installing network facilities. In this regard, they not only require separate organizations for the actual provisioning of network facilities, but also prevent SBC from engaging in joint network planning and engineering, or in design and assignment of those facilities. The restrictions also impose forced separation on SBC's maintenance and repair activities. That forced separation can complicate and delay the process of diagnosing and repairing network problems. For example, when a customer who obtains service from ASI and other affiliates reports a service problem to ASI, ASI is not permitted even to test the customer's logical and physical circuit on an end-to-end basis, much less assume responsibility for any repair that might involve another affiliate's facilities. Thus, if after testing its own facilities, ASI determines that the problem is not in its own network, ASI must attempt to determine, without the benefit of testing, the source of the problem and refer the trouble ticket accordingly. If ASI guesses wrong, another hand-off is required. If there are problems in two different networks, multiple technicians must be dispatched.
4. These OI&M restrictions affect all customers that request combinations of long distance, advanced services and local services, but their most significant impact is on medium-sized and large business customers. These customers generally require multiple services with sophisticated networks to connect numerous employees at different locations. Consequently, they demand specialized services from telecommunications carriers. They require dedicated account teams, custom engineered solutions to their business needs, and a single point of contact for customer service. Seamless end-to-end service and the efficient provisioning of the network are of the essence for these customers.
5. The OI&M restrictions prevent SBC from effectively and efficiently meeting these customers' expectations for service. As a result of those restrictions, SBC must attempt to meet the multi-faceted requirements of its business customers using the services of multiple affiliates that operate largely independently of one another and are inhibited by regulation in their ability to coordinate with one another. For example, in order to better serve medium-sized and large business customers, SBC has created multiple customer support centers to attempt to serve as single points of interface for the customer. To that end, SBC DataComm has customer support

centers that coordinate and facilitate the installation, monitoring, maintenance and repair of high capacity local transport, advanced data services (e.g., ATM, Frame Relay), customer premises equipment and local area networks. SBC has also established "Major Account Centers" within the BOCs to perform some of the same functions for customers whose needs are different from those served by SBC DataComm. But while SBC can establish single points of contact that obviate the need for customers to make multiple phone calls, SBC cannot provide the follow-up OI&M functions necessary to serve its customers in an integrated, efficient and coordinated manner. Instead, SBC must use separate, sometimes multiple, organizations to perform these functions in piece-parts through a series of hand-offs and iterative processes. This results in increased costs, delays in installation, maintenance and repair, and a reduction in the quality and reliability of SBC's service. These costs are not unnoticed by consumers. Many consumers who would otherwise consider SBC for their service needs instead limit themselves to SBC's competitors, who do not operate under similar restrictions. As a result, the OI&M restrictions effectively reduce customers' choice in the marketplace.

6. One of SBC's recent projects for a major federal regulatory agency illustrates the inefficiencies created by the OI&M regulations. SBC recently installed a Frame Relay network for the agency, which involves local and long distance network components. Because of the OI&M restrictions, SBC was forced to designate two project managers during the installation process -- one for ASI for the provision of the local fast packet service and one for SBCLD for the long distance data components -- who send orders to the various work centers and initiate the turning up of service for the different pieces of the order. SBC also was forced to use separate, redundant operation support systems ("OSS") for the provision of network facilities. Once the service was installed, and the systems put in place, the duplication continued. For example, SBC was forced to use separate network monitoring systems -- one for ASI and one for SBCLD.¹ When the agency reported trouble on one of the circuits (which consists of transport, a Frame Relay port, and the routing logic within the Frame Relay network), SBC often had to use two sets of personnel and systems to isolate and repair the trouble on either the interLATA transport components or on the local Frame Relay components. Initially, ASI, working alone, had to determine if the trouble was on its portion of the network. In those instances in which it was not, ASI had to pass the trouble ticket to SBCLD, so that SBCLD could initiate its own testing of its portion of the circuit. This second, duplicative test was required because ASI is not itself permitted an end-to-end view of the circuit. As a result, diagnosis and repair were delayed, outages needlessly prolonged and costs artificially inflated.

¹ SBC had a similar experience while recently providing service to a large insurance company. Because of the OI&M restrictions, the BOC employees were not able to coordinate efficiently with SBC's long distance network employees. Because a single design engineer was prevented from optimizing the network design and selecting the optimal meet points for the customer, the customer became dissatisfied and went to another service provider who could integrate network design and operations into a single step process.

7. Another example further illustrates the ways in which the OI&M restrictions delay the installation of service to ASI's customers. ASI's medium and large business customers often require local and long distance ATM and Frame Relay service. Although ASI has the necessary expertise to provision the Private Virtual Circuits ("PVCs") on the fast packet network and to perform logical "mapping" of the PVCs for long distance circuits, ASI is not permitted to do so under the existing regulations. As a result of the requirement to hand off logical provisioning on the fast packet networks between SBCLD and ASI personnel, fast packet service customers have experienced extended due dates and, sometimes, multiple changes in the due dates. This has eroded customer confidence in SBC's provision of long distance advanced services.
8. A third example illustrates one of the ways the OI&M restrictions can increase the risk of service outages and delay repair of the network. In order to meet its regulatory obligations, SBC has installed optical concentration devices ("OCDs") in many of its end offices. These OCDs enable CLECs to provide DSL service to consumers using SBC's Project Pronto architecture. The OCD equipment performs routing and aggregation of packetized data similar to what is done by an ATM switch. Because of its responsibilities for the deployment and maintenance of packet switches, ASI has equipment and expertise that the BOC would find useful in monitoring and maintaining OCDs. Because of the OI&M restrictions, however, ASI is not permitted to provide OI&M support to the BOC. Recently, the BOC experienced two outages while upgrading its OCD network – the first lasted almost 5 hours and the second one about 8.5 hours. Had ASI been able to assist the BOC with the operation of the BOC's OCD equipment, this outage might have been avoided altogether. Had ASI been able to assist the BOC with the repair of the OCD equipment, the repair might have been completed in a shorter period of time.
9. Given the impact the OI&M restrictions have on the ability of SBC to address its customers' needs, these restrictions effectively result in lost business opportunities for SBC and reduced choices for customers. This point, as well, is illustrated by a recent example. SBC recently submitted a bid for the business of a customer who provides imaging archival storage service to large financial institutions. This customer was seeking local, long distance and advanced services from a single carrier. The primary requirement for this customer was that the telecommunications carrier provide it with a single point of contact ("SPOC") who could ensure end-to-end service to reduce "downtime" on the network. SBC proposed a network solution that consisted of 12 remote locations with long distance access from SBCLD to ATM switches provided by ASI, two host sites connected to the ATM via its OC-12 facilities from the BOCs, Cisco VPN Routers at Remote and Headquarter sites from SBC DataComm, with SBC DataComm acting as the nominal single point of contact. Although SBC's proposal was competitive on price and functionality, the customer would not use SBC because SBC's solution required multiple operational hand-offs instead of focused and direct management control. This serving arrangement was viewed by the customer as increasing the potential for additional downtime and was deemed

unacceptable.² As a result, the OI&M restrictions effectively denied the customer the choice of SBC as a service provider.

10. The OI&M restrictions do not merely cause operational problems, such as longer installation intervals and delays in service repair. They also substantially increase SBC's cost of doing business by forcing it to maintain redundant OI&M personnel, equipment and systems and by limiting interface and coordination among them. Those additional costs must be reflected in the prices SBC offers in the marketplace. For example, SBC recently lost a bid for the business of a large customer because SBC's estimates for site engineers, installation costs and other relevant costs were 30% higher than the winning bid. Had SBC not been forced to bear those increased costs, it could have offered a much more attractive price which, in turn, might have spurred its competitors to lower their own bids. Regardless of whether SBC would ultimately have won the bid, the customer would have had more choice and paid a lower price.

Costs of Separate OI&M Operations

11. If the OI&M restrictions were removed, SBC would immediately begin integrating OI&M functions among SBCLD, ASI and the other SBC Data Services affiliates. The savings from this integration alone would amount to \$77,779,000 per year, not including any additional savings SBC would realize in the future if it integrates OI&M functions between the SBC BOCs, on the one hand, and ASI and SBCLD on the other.³
12. SBC calculated its estimated savings from integrating OI&M functions among SBC Data Services subsidiaries based on an analysis that was performed at my direction to identify savings in terms of labor expense, operational expense and capital on an annual basis if these restrictions are lifted. The costs saving to be realized from elimination of the OI&M restrictions detailed in the following paragraphs have been identified by work function.
13. Ordering, Circuit Design and Facility Assignment. Currently, SBC Data Services must maintain at least three sets of systems and workforces for ordering, circuit design and facility assignment, including separate systems for ASI and SBCLD. With removal of the OI&M restrictions, SBC Data Services would integrate these systems and workforces into one centralized system and work group for all of those

² This is not an isolated incident. SBC recently lost the opportunity to provide services on two additional contracts with financial institutions that cited SBC's lack of an integrated network management system as the basis for rejecting SBC's bid.

³ SBC did not include savings from the sharing of OI&M functions with the SBC operating companies in this initial estimate, in part, because SBC believes it will be able integrate OI&M functions among the SBC Data Services affiliates quickly, whereas any future integration with the operating companies will take longer. In addition, SBC can estimate the savings resulting from integration of OI&M functions among SBC Data Services affiliates with far more precision today than it can estimate the additional savings that would result from the sharing of OI&M functions with the operating companies.

entities. The projected savings from the consolidation of the systems software and hardware is 25% of the existing costs of maintaining and operating those systems. Consolidation of these functions would also permit consolidation of work forces responsible for manual handling of orders that fall out of the system, circuit design and facility assignment. Labor savings are estimated to total 25% of the existing labor and related employee expense associated with these functions. The total expected savings is \$10,660,000 annually in labor, expense and capital.

14. Provisioning, Installation, Maintenance and Repair. The OI&M restrictions prohibit SBCLD and ASI from sharing with one another and with the other SBC Data Services affiliates personnel and systems used to provision, install, maintain and repair network components. As a result, SBC must maintain duplicative systems and personnel to provision and install service, test the service after provisioning and installation to ensure that it is working, post the installation order as complete, perform diagnostic testing in response to trouble reports to identify the facilities responsible for the trouble, hand off the trouble ticket to the appropriate work center to perform the repair, repair the service, re-test the service when the repair is complete and notify the customer, and also notify customers of outages or of planned maintenance activities. The duplication of these functions among several affiliates requires redundant systems and personnel. Moreover, the process of provisioning, installing, maintaining and repairing network facilities is complicated and delayed by the need to hand off work items among multiple affiliates, each responsible for only a piece-part of the overall project and each of which may be required to duplicate work already performed. With removal of the OI&M restrictions, one entity could install, provision, maintain and repair network facilities for all of the SBC Data Services companies. This would eliminate the need for duplicative hardware, software and personnel and also eliminate the multiple hand-offs that complicate and delay the performance of these activities. The savings from integrating these functions would be \$41,790,000 in labor, expense and capital.
15. Program/Project Management. Program and project managers perform coordination functions to ensure that various company initiatives are appropriately prioritized, managed and funded. The initiatives they manage can be broad in scope (e.g., various work activities to improve network reliability) or narrow in scope (e.g., deployment of a particular piece of network equipment or of a customer's service. Because of the OI&M requirements, SBCLD, ASI and the other SBC Data Services affiliates must maintain separate program and project managers. For example, when installing a frame relay service, ASI and SBCLD must designate separate project managers to ensure timely and appropriate implementation of the products and services. A single program management office could perform this function for all impacted affiliates. The current structure is inefficient and increases the risk of error from the difficulty of coordinating the various components. It also adds costs due to the duplication of personnel and system resources to manage the implementation of the same product for each of the affiliates. It is anticipated that removal of the OI&M restrictions would result in savings from integrated Program/Project Management of \$1,540,000 in labor, expense and systems.

16. Performance Metrics, Customer Service Quality and Executive Complaint Group.

- a. Performance Metrics. SBCLD, ASI and the other SBC Data Systems companies use performance metrics and measures to track the quality of their services and, on occasion, to provide information on service quality to their customers. As a result of the OI&M restrictions, each entity must develop its own performance metrics and individually track its own performance in the areas of provisioning, service quality and repair. This requires redundant systems for generating, maintaining and storing data. Elimination of separate performance metrics and reporting capabilities would save approximately \$180,000 annually in labor, expense and capital.
- b. Customer Service Quality ("CSQ"). CSQ personnel survey customers to track customer satisfaction with their overall experience with SBC. The personnel performing these functions utilize identical skills for development of business requirements, design of surveys and reports, and analysis of results. As a result of the OI&M restrictions, SBCLD and ASI must maintain an independent staff (separate from one another and the other SBC Data Services affiliates) for performing these identical functions and they are prohibited from coordinating. If the OI&M restrictions were lifted, SBC could perform these functions on a more integrated and efficient basis, thereby saving time for project management, training, planning, skill development and defining best practices. It is anticipated that this would result in savings of \$425,000 annually in labor and employee-related expense.
- c. Executive Complaint Group ("ECG"). ECG is a discrete group responsible for handling customer complaints that have been escalated to the executive level. ECG will take all steps necessary to address the complaint, including, if necessary, ordering the dispatch of an installer or repair technician. It also will analyze the root causes of complaints and develop long-term solutions. In order to perform their functions, ECG personnel must have access to systems and data relating to or used in the provisioning, installation and maintenance of various services. Because of the OI&M restrictions, however, SBCLD and ASI must maintain ECG organizations that are separate from one another and the other SBC Data Services affiliates. Thus, the resolution of a complaint from a single customer with service from multiple affiliates requires coordination among the ECG personnel of different affiliates. Moreover, the current structure is inefficient and requires the use of multiple systems for tracking and multiple post-sales support contacts for end users. Having functionality within the same groups optimizes resources, promotes process standardization and avoids duplication of job functions. Integrated service support and management enhances customer relations and increases satisfaction for the customer. Consolidation of multiple ECGs and combining systems to a centralized structure would allow for labor and expense savings of \$300,000 annually.

17. Local Field Operations and Dispatch. Currently, two separately managed local field operations ("LFO") groups are dispatched (usually to the customer's premises) for

DSL provisioning for ASI, and CPE installations and maintenance for SBC DataComm business customers.⁴ With removal of the OI&M restrictions, SBC DataComm could assume the installation, maintenance and repair of network facilities and CPE. The projected savings of the consolidation of the systems software and hardware is 10% of existing costs for information technology operations and systems support. The ASI LFO operations savings is projected to be 5% of ASI's LFO workforce. The savings from integration of LFO and technician dispatch operations are expected to be approximately \$6,075,000 in labor, expense and capital.

18. Surveillance and Monitoring.

- a. **Network Operations Centers.** Currently, three separate affiliates within SBC Data Services must maintain their own Network Operations Centers ("NOCs") to perform their own surveillance and monitoring of customers' networks, to initiate appropriate action in the event of customer impacting events, such as outages or planned maintenance activity, and to manage certain network projects, such as planned maintenance activity that affects a large group of customers. Each of these affiliates may perform these functions only with respect to the network facilities it provides. With removal of the OI&M restrictions, SBC could consolidate the separate NOCs into a single NOC that would be able to monitor customers' services on an end-to-end basis, and perform the functions in consolidated fashion. This would result in substantial workforce savings. Specifically, SBC estimates that the integration of NOC operations would save approximately \$12, 819,000 in labor and employee-related expenses.
- b. **Network Management Systems Duplicate Licenses.** Because three separate affiliates use many of the same systems and applications for network monitoring, but cannot share these systems because of the OI&M restrictions, they must pay for duplicate applications licenses and duplicate hardware. If the three affiliates were permitted to consolidate operations, SBC would realize a savings of \$425,000 in software licensing expense. In addition, it would enable SBC to redeploy some of the servers used in the NOCs and thereby save \$1,100,000 in capital expenditures for hardware.

- 19. Network Capacity Management.** The OI&M restrictions require SBCLD and ASI to use systems and personnel that are separate from each other and from those of the other SBC Data Services affiliates to track network capacity and utilization to ensure that adequate capacity has been deployed to meet customer needs. Thus, SBC must use duplicative hardware, software and personnel to perform these functions. With relief from the restrictions on OI&M, ASI and SBCLD could integrate their systems and processes into one capacity management system, thereby eliminating the need for redundant servers and personnel. This would result in a saving of \$677,000 annually in labor, expense and capital.

⁴ SBC DataComm is an affiliate of the SBC BOC that provides CPE, CPE monitoring, CPE maintenance and repair, and customer network (i.e., LAN, WAN) management services.

20. Staff Product Support. Personnel and systems providing "staff support" for SBCLD and ASI today must operate isolated from one another and from the other SBC Data Services affiliates. Staff support includes functions such as documenting methods and procedures ("M&P"), writing systems requirements (that is, identifying the functions the systems need to perform), and designing and developing processes for network monitoring, installation, design, maintenance and repair for ASI and SBCLD products. There are similar staff functions in each of the two companies that could be combined due to the commonality of the work effort required. The consolidation of these resources would result in a more efficient customer experience, as well as lower overall product costs. These product support functions could be consolidated and performed by one person on a product-by-product basis (e.g., interLATA and intraLATA Frame Relay Service), given that the skills, expertise, training and experience required to perform these functions are the same regardless whether the network facilities are used for local transport, long distance or advanced services. Having functionality within the same group optimizes resources, promotes process standardization, and eliminates potential duplication of job functions. Furthermore, integrated product support increases the odds of successful product implementation across the affiliates, which results in a better experience for the customer. It is anticipated that removal of the restrictions will result in a savings from Product Support of about \$829,000 in annual labor, expense and systems support costs.
21. Real Estate. With removal of the OI&M restrictions, SBC will realize a savings in real estate in relation to the personnel eliminated by integrating duplicative functions. The reduction in headcount will reduce the costs associated with utility and phone bills, furniture rentals, PC leases and other incidental real estate costs. The projected savings from headcount reduction is at least \$959,000 in annual expense.
22. Thus, the restrictions imposed on SBC – but not its competitors – impose significant costs on SBC, costs that are ultimately borne by consumers in the form of increased prices and reduced choices in the marketplace. Not only are the direct costs of these restrictions substantial, but the impact on customers is substantial as well. As demonstrated above, the OI&M restrictions impair SBC's ability to provide seamless service, cause enormous customer confusion and frustration, needlessly prolong service outages, and diminish customer expectations of network reliability. These restrictions harm rather than serve the public interest and should be eliminated.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on June 5, 2003

/s/ Richard Dietz

Richard Dietz
President & CEO
SBC Data Services, Inc.